

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION OF THE GAS)	
PURCHASING AND MARKETING)	
PRACTICES OF THE UNION LIGHT)	CASE NO. 9201
HEAT AND POWER COMPANY)	

O R D E R

On October 29, 1984, pursuant to KRS 278.250 the Commission, upon its own motion, initiated an investigation into the gas purchasing and marketing practices of Union Light, Heat and Power Company ("ULH&P"). This investigation was initiated due to the increasing costs of ULH&P's wholesale supply of gas and an erosion in its industrial sales. ULH&P was ordered to file information on its gas operations relating to the following issues:

- (a) Efforts to procure a lower cost gas supply;
- (b) Extent of participation in wholesale gas incentive pricing programs;
- (c) Feasibility of ULH&P receiving a supply of gas from other than its traditional supplier;
- (d) Efforts to market gas to customers with alternative fuel capabilities;
- (e) ULH&P's short-term and long-term plans and goals for gas purchases and gas marketing; and
- (f) ULH&P's complaint resolution procedures to satisfy customers and enhance its gas marketing outlook.

On January 24, 1985, ULH&P filed direct testimony of Mr. John F. McCarthy, Manager of the Gas Supply Department of Cincinnati Gas & Electric Company ("CG&E") and its subsidiaries, one of which is ULH&P. Mr. McCarthy responded to the issues raised herein in the following manner:

(a) No other interstate pipeline can supply gas to ULH&P's distribution system except Columbia Gas Transmission Company ("CGT"); therefore, ULH&P is restricted to gas that CGT will transport and CGT will not transport gas for general system supply to ULH&P.

(b) ULH&P has participated in various gas incentive pricing programs offered by CGT, including an Incentive Sales Program ("IS"); Phase I and Phase II transportation programs; and a Special Marketing Program ("SMP");

(c) ULH&P's only connection with an interstate gas pipeline is with CGT;

(d) In addition to CGT's SMP and Phase I programs which were directed at large volume endusers, ULH&P also has General Service and off-peak tariff rates which are intended to help ULH&P market gas competitively with competing fuels used by fuel-switching customers;

(e) In January 1985, ULH&P filed with the Commission a proposed flexible transportation tariff, "to allow ULH&P to remain competitive with alternate fuels . . . and allow ULH&P to return a portion of transportation revenues to all customers"; and

(f) ULH&P initiated a "We're listening" program to improve customer service.

In response to the Commission's Order of July 24, 1985, requesting an update of ULH&P's gas purchasing and marketing practices, ULH&P filed on August 22, 1985, a Summary Statement. In this statement ULH&P stated "significant" measures had been taken since the testimony filed in January 1985, specifically:

(a) CGT's settlement with the Federal Energy Regulatory Commission ("FERC") (Docket No TA82-1-21-001) reduced CGT's commodity rate from \$4.07/Dth to \$3.60/Dth during the period April 1, 1985, through March 31, 1987, which will save ULH&P and its customers over \$14,000,000;

(b) As part of the settlement CGT agreed to transport spot market gas for ULH&P's general system supply, which ULH&P anticipates will assume approximately 40 percent of its annual demand; and

(c) CG&E was granted authority by FERC to transport gas through its system, across the Ohio River, to ULH&P's distribution system, which will provide ULH&P another option for future gas purchases.

The Commission is of the opinion that ULH&P has initiated certain actions on its own which have helped to maintain its industrial base by marketing its gas in a competitive manner, and ULH&P has been a primary beneficiary of CGT's settlement with FERC as a result of CGT's agreement to transport gas for general system supply.

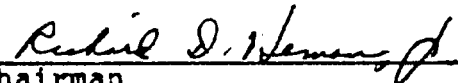
The Commission is also of the opinion that FERC approval allowing CG&E to transport gas across the state line into Kentucky provides ULH&P a realistic alternative for future supplies of gas from other than its traditional supplier.

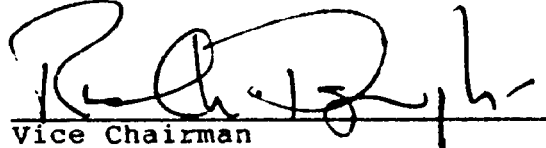
The Commission is also of the opinion that as a result of the information supplied by ULH&P to the Commission in the direct testimony, and more recently the Summary Statement, ULH&P has addressed the Commission's concerns which were responsible for the initiation of this case. In addition, updated information related to the issues addressed herein will be forthcoming in the near future during Administrative Case No. 297, a generic proceeding to investigate the impact of federal policy changes in the natural gas area on Kentucky ratepayers.

IT IS THEREFORE ORDERED that this case is closed by the Commission upon its own motion.

Done at Frankfort, Kentucky, this 17th day of January, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:

Secretary


Commissioner